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6 October 1959

MEMORANDUM FOR: Deputy Assistant Director for Research and Reports
FROM: Chief, Economic Research Area
SUBJECT: ERA Contribution to "Semianual Report to the
President's Board of Consultants"
REFERENCE: Your Memorandum of 1 October 1959 on the same subject

I. Economic Intelligence Production

Economic intelligence production on the Sino-Soviet Bloc during the reporting period continued to be focused on evaluation of Soviet economic progress under the Seven Year Plan, the economic aspects of Soviet military plans and programs, the Chinese Communist claims of spectacular economic gains during 1958 and 1959 under the "leap forward" program, and Bloc economic activities in underdeveloped areas of the Free World.

ORR's research and analysis has led to the conclusion that Soviet prospects for continued economic growth during the Seven Year Plan period (1959-1965) are good. The planned massive investment program is expected to result in average growth rates for the Soviet economy of the following order: gross national product, about 6 percent annually; industry, 8-10 percent annually; agriculture, 2-3 percent annually. Although such

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unfavorable factors as a declining rate of growth in the labor force and continuing problems in agriculture will provide some check on Soviet economic progress, these impressive growth rates should be attainable barring unforeseen circumstances. Soviet consumer goods production plans, although providing for somewhat slower growth rates than in the recent past, will provide appreciable -- and appreciated -- gains to the consumer, as will the state and private housing construction programs. The private housing program, a unique Khrushchevian innovation, serves the dual purpose of promising alleviation of a major consumer grievance and of providing a device for the absorption of private savings and for utilization of new leisure time resulting from the promised diminution of the work week. Assuming the continuation of present US economic growth rates, the estimated Soviet rates will permit the achievement of Soviet GNP and industrial production over half that of the US by 1965, thus moving the Soviet regime closer to its objective of catching up with the US.

ORR's research on the economic aspects of Soviet military plans and programs and supporting scientific activities led to significant contributions during the review period to national intelligence estimates concerned with Soviet science and technology, capabilities in guided missiles and space vehicles, and capabilities for strategic attack. The latter contribution concluded that a Soviet policy of deliberate surprise

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attack against Western retaliatory forces with ICBM's at any time through mid-1964 would require so large a military and industrial effort that Soviet planners would be required to forego many important economic programs currently under development and to reorganize a major portion of the Soviet economy. Because of ORR's primary responsibility for intelligence on the production, deployment, construction and transportation aspects of Soviet guided missile activity, the Office is continuing to apply an increasing proportion of its manpower to research in this field.

Among the more important intelligence developments during the period was the Chinese Communist "verification" of a number of output claims for 1958 and plans for 1959, in the process of which they found these claims to be "a bit high". This graceful recantation is evidence that the Chinese are now able to emulate the British in the field of understatement -- if in no other. In fact the ^{revisions} ~~revised claims~~ are quite drastic, and ORR's early skepticism of the original claims -- as expressed in its contributions to national intelligence estimates on Communist China -- is accordingly confirmed. In spite of the downward adjustment and our continued suspicion of the new claims, ORR estimates that 1958 was a remarkably good year for the Chinese economy and that prospects for continued rapid growth are high under a program of regimentation which pays small regard to the human and social costs involved. ORR has closely followed the "commune" program and assessed its long run

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economic significance for the rapid industrialization of Communist China. Although the regime appears so far to be succeeding in its efforts to drive the Chinese people at a frenetic yet increasingly disciplined and coordinated pace, the task of estimating the effects on the future growth of the Chinese Communist economy is subject to many uncertainties and will require a continual examination and analysis of developments which are, in many respects, unprecedented even in the Communist world.

ORR continues to give major attention to Bloc economic activities in underdeveloped countries through its contributions to national intelligence estimates on these countries and its participation in the preparation of the EIC biweekly and semiannual reports on this subject. ORR also maintained its support to the economic defense community, producing intelligence for the US unilateral and COCOM multilateral economic defense programs. ORR's forecasts that the removal of copper from the COCOM list would result in a substantial increase in Bloc imports from the Free World were borne out by the latest trade data, showing a doubling of such imports.

Other significant subjects which were given major attention in ORR's economic intelligence production program during the period included: Soviet military construction activities, missile deployment including mobile rail missile launching systems, Soviet aircraft production, the electronics industries of East Germany and Communist China, the Soviet electron tube and semi-conductor industries, Bloc developments and capabilities in the fields of transportation, telecommunications and

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construction, and the dependence of the Bloc on Free World shipping. Intelligence support to high-level policy-makers in connection with aspects of the Berlin crisis was supplied.

II. Major Intelligence Gaps

ORR's research aimed at providing comparisons of the US and USSR economies -- which are becoming increasingly frequent subjects of support requests -- is hampered to a degree by the lack of Soviet data and the lack of clear definitional standards for available data. These lacks, combined with the basic conceptual difficulties in making such comparisons, make our present efforts in this field tenuous at best. Research on the problem is proceeding on several fronts, however, in a concerted effort to improve capabilities in this priority area. Efforts to evaluate Communist China's economic situation and prospects are similarly handicapped; the recent statistical extravagances in that country have, in ORR's opinion, caused considerable confusion among the regime's own planners.

The economic intelligence production of ORR continues to be hampered by gaps in information on the composition of the announced Soviet defense budget, and on the actual size, composition and cost of the Soviet military effort, particularly the economic impact and magnitude of the Soviet missile program. Lack of information on guided missile production facilities, deployment activities, and Soviet requirements for electronics and other strategic equipment is a particularly serious problem. The

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III. Dissemination and Utilization of ORR Products

ORR continued during the reporting period to be the major producer within the intelligence community of intelligence on the production, deployment, construction and transportation aspects of Soviet guided missile activity. ORR's research in these fields is in support of the Guided Missile and Astronautics Intelligence Committee and the Office of National Estimates. ONE is also the major consumer of ORR's research production in the aggregative economics of the USSR, China and other Bloc Countries.

ORR continued its support to the Air Force Target Data Inventory

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Program by providing 1958 production estimates for selected industries in the Sino-Soviet Bloc.

The biweekly and semiannual reports on Bloc activities in the under-developed countries of the Free World are disseminated locally to the intelligence community and other interested agencies and are forwarded to Agency components and US diplomatic missions abroad. ORR's efforts in the export control field included intelligence support to the Advisory Committee on Export Policy in connection with requests for licenses to export industrial plants and technology to the Soviet Bloc; the Office also furnishes intelligence for technical task groups on the supply situation for various items of machinery and equipment in Bloc countries.

An alphabetical index of COCCM Lists was prepared [redacted]

[redacted] for distribution to all Foreign Service posts.

ORR's reporting of current economic intelligence on countries of the Sino-Soviet Bloc receives wide dissemination through the Office of Current Intelligence's regular publications. In addition, ORR is increasingly called upon to provide background and current information for briefings to the growing number^b of high US officials planning visits to Bloc countries; for speeches and briefings by senior Agency Officials; and for Congressional Committee use.

IV. Guidance to Collectors and Intelligence Collection Activities

ORR's program of scheduled statements on priority information gaps on critical economic subjects is continuing and is providing guidance not only for clandestine collection but also for the collection activities

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of the Office of Operations and other agencies within the intelligence community.

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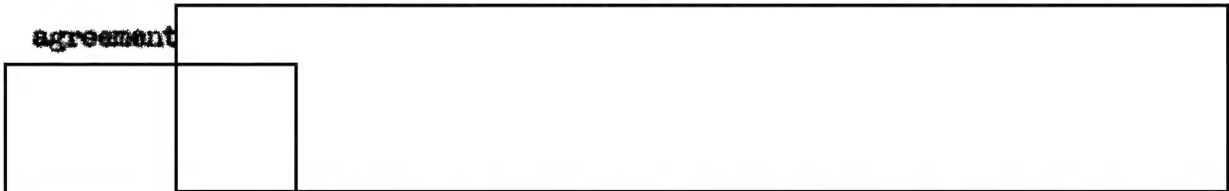


The US-USSR exchange program has continued to provide unique intelligence in several areas of ORR's responsibility. Support has been given to the USIB Committee on Exchanges by the preparation of requirements, briefings and debriefings

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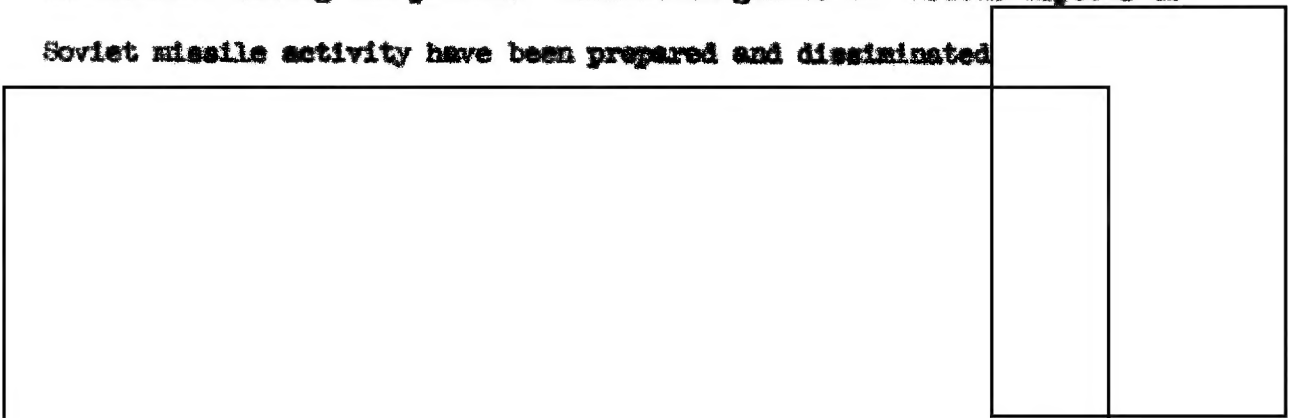
The Office has prepared a number of potentially valuable exchange proposals for consideration in forthcoming negotiations with the Soviets on the 1960-1961 exchange agreement

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Support to the collection of guided missile intelligence has been intensified during the period. Collection guides on various aspects of Soviet missile activity have been prepared and disseminated

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V. Coordination of Economic Intelligence



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Effective coordination between ORR components concerned with military production and their service counterparts continued throughout the period. The EIC subcommittee structure continued actively; economic research in the fields of foreign trade, communications, transportation, and ship construction was coordinated through this mechanism.

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Interagency meetings of the EDAC-ACEP community were held for the purpose of presenting coordinated intelligence in support of the economic defense program. Coordinated intelligence was also presented at meetings of the Port Security Committee.

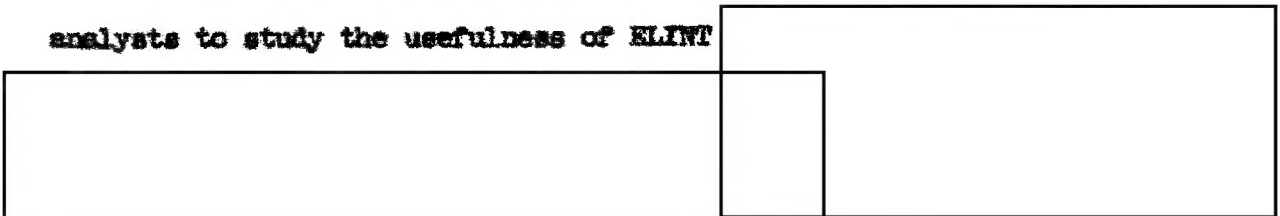
VI. The Speed of Intelligence Communications

No comment.

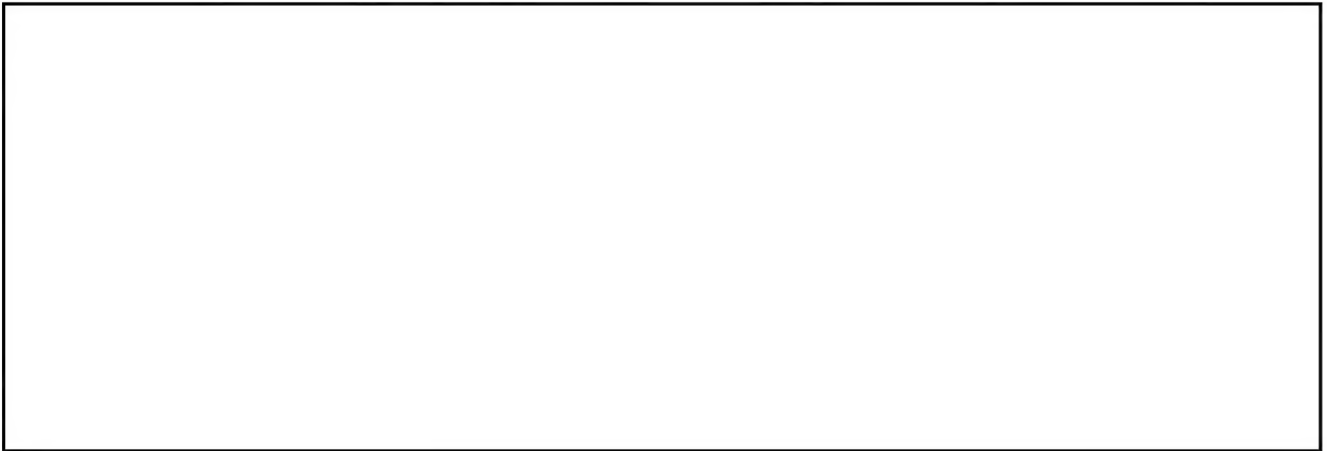
VII. Status of ELINT

During the period under review ORR assigned a group of senior analysts to study the usefulness of ELINT

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